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Designing Messages: How Annual Reports Reflect Your Image

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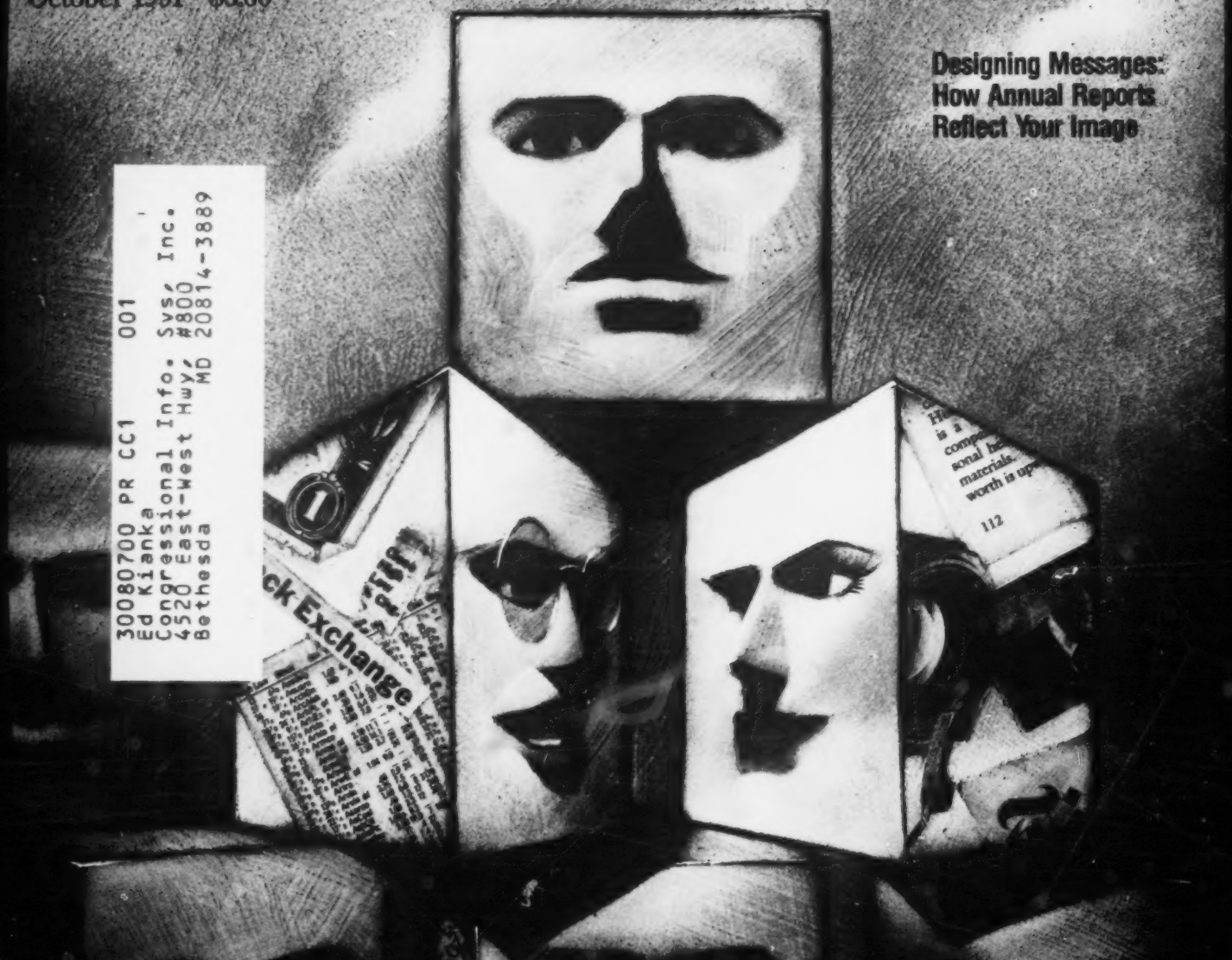

BUILDING BETTER FINANCIAL COMMUNICATIONS:

IR SPECIALISTS COOPERATE WITH OTHERS IN CORPORATE STRUCTURE

PUBLIC RELATIONS JOURNAL

October 1991 Vol. 47 No. 10

FEATURES

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As those charged with bridging the communications gap between firms, clients and the public, practitioners are often forced to make difficult choices. PRSA's National Conference takes up this challenge, as these Conference highlights show. A list of exhibitors which will display products and services for practitioners at the Conference is included.

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Cover: *John Labbé*

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Confronting the ethical choices

In this issue, we preview some of the highlights of PRSA's 44th National Conference, to be held Nov. 3–6 in Phoenix, AZ *(page 10)*. The Conference theme is "what's Right?" The program is designed to help public relations practitioners "confront the ethical choices" they face on a daily basis, according to Davis Young, Fellow, PRSA, and Conference chairman.

For the public relations professional, striking a balance between accurate representation and advocacy of a client's or organization's cause may present immediate ethical choices. Facts can be communicated selectively, with certain facts emphasized to suit a specific target audience. It's often difficult to tell the whole truth, because some of the truth is almost always unflattering to the teller or his cause.

Combating the cynical view among some publics, including some media, of public relations as trickery or, at best, publicity seeking, is a constant battle for practitioners who care about their image. Ethics or the perceived lack thereof is at the heart of this issue. To change negative attitudes about public relations requires dialogue with adversaries, recognition of the counseling function by non-practitioners, and adherence to professional standards of proficiency and practice.

If you come to Phoenix, promises Young, expect to be confronted by "a wide range of ethical issues that touch on human rights, truth, information flow, individual and organizational directions." You will definitely observe a culturally diverse mix of practitioners and presenters delving into topics that should raise your sights for yourself and your profession.

The staff of *Public Relations Journal* looks forward to meeting many of our readers at the Conference in November. We are also eager, as we believe you will be, to "confront the ethical choices" in an atmosphere of sharing, caring and learning.

Susan L. Fry, Editor

Mission Statement*

The *Public Relations Journal*, published by the Public Relations Society of America, will position itself, through editorial and visual excellence, as the preeminent journal on public relations for practitioners in public relations and related fields, educators and those persons who are either responsible for, or who have direct interest in, the public relations function.

The *Public Relations Journal* will be issue-oriented and will cover theory and practice as well as developments affecting the practice of public relations and impacting on the Society and its institutions.

The *Public Relations Journal* will be considered the centerpiece of the publications program of the Public Relations Society of America and will receive top priority as to budget, timeliness, and effort, the goal being to increase continually the quality of the magazine.

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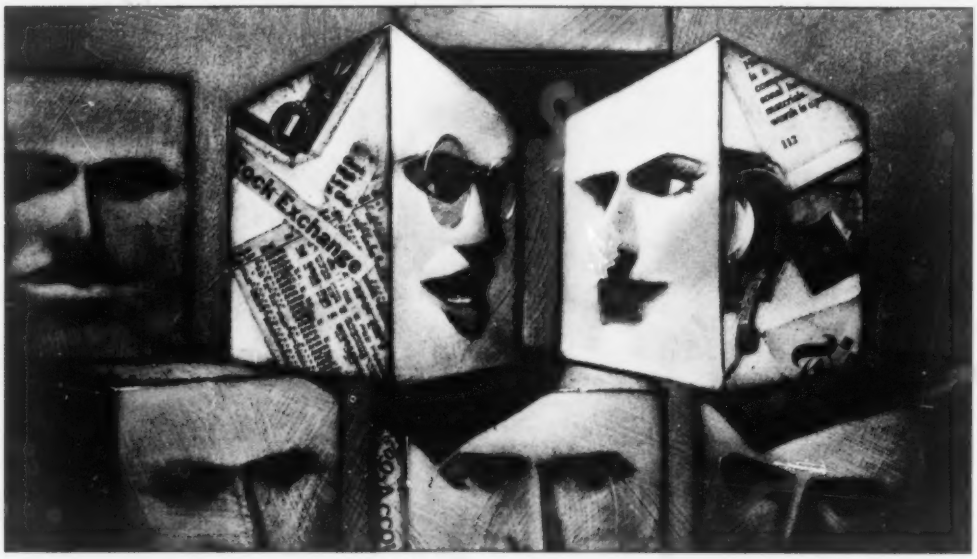


Clear corporate communication on financial matters increasingly depends on cooperative efforts by both investor relations and other public relations professionals. While turf wars still exist, the best-run companies are building a consistent communications strategy based on better rapport between investor relations and other specialists, according to a recent survey of members of PRSA's Investor Relations Section.

Robert D. Ferris and **Richard M. Newman, APR**

In an era when a company's financial position is often discussed in the popular press, there's a growing need for interdependence between investor relations (IR) and other corporate communications professionals. Traditionally, both have worked on such corporate communications to stakeholders as annual reports or the CEO's speech for the annual stockholders meeting. In general, the IR person obtained and presented figures which the corporate or media relations person relayed to the financial and/or trade press.

The growing influence of institutional as opposed to individual stockholders over corporate governance has affected the communications picture, too. To a lesser extent, so has the growth of foreign investors. A broader range of media are looking into corporate finances, which puts pressure on IR and other corporate spokespeople to cooperate. Financial analysts, who used to be the sole purview of IR people, have become third-party sources for the business press, who had traditionally been wooed by other corporate communicators. Activist shareholders are also stirring the media pot in attempts to put political or social issues on corporate agendas.

These trends emerged when *Public Relations Journal* surveyed members of the Public Relations Society of America's Investor Relations Section in June. Of 301 section members contacted, 66 (almost 22%) responded. *(See box, page 20.)* While the survey findings are not projectable to the universe of investor relations practitioners as a whole, the opinions expressed by those surveyed provide a snapshot of corporate financial communications today.

The survey findings clearly indicate increasing interdependency between investor relations and other public relations functions in corporations. In fact, IR practitioners have relationships with many different departments in the corporate hierarchy, including human resources, finance and accounting, law and the corporate secretary, and the offices of the CEO, CFO, COO or chairman of the board. In addition to these internal publics, IR specialists deal primarily with bond/stockholders, financial community influentials, and the media on corporate and financial issues. Many of these external

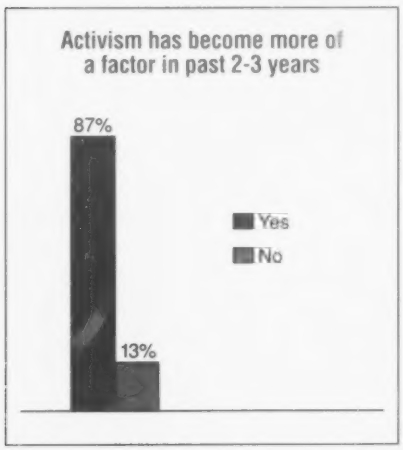
relationships clearly require close cooperation with media/corporate relations practitioners in presenting a consistent message to the outside world.

Communications reflects strategy

Financial communications can make or break a company's image and obviously have strong bottom-line impact. As a result, top corporate management keeps a watchful eye on these messages and seeks consistent presentation, regardless of who speaks for the company. Ideally, financial communications emanate from the top level of the corporation and reflect its overall strategy.

IR is an increasingly important part of the corporate strategy. Among corporate respondents who commented, more than half expressed this view. What seems to vary from company to company is how IR is positioned within the management structure. Again on this question, respondents stressed the importance of IR and other communications professionals cooperating to send clear financial messages. Perhaps because of the subject matter, relatively few survey respondents identified themselves for attribution.

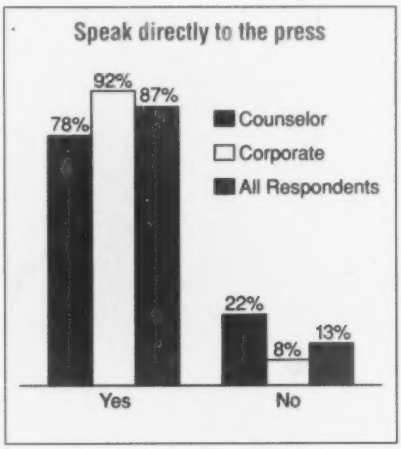
Financial analysts were earmarked as a key target audience in the strategic plan. "IR is recognized as an important function to convey the corporate strategy to the financial community," stated one corporate practitioner. "IR is positioned very high in our



company," stated another respondent. "We don't want to surprise anybody, so we diligently keep influential analysts informed."

IR is "part of achieving corporate goals via better access to capital markets," remarked one corporate practitioner. The person with the IR responsibility is "part of senior management," commented another. "He has input on almost all major (financial) discussions." At another company, IR "reports directly to the chairman and works in conjunction with the CFO." The specialty has been "pushed to high priority in the last four years," another source said.

IR is "part of the strategic planning department rather than finance" at our company, one respondent wrote. In contrast, another executive reported: IR is "formally within the corporation's financial staff. I'm on the corporation's communications staff and work closely with the IR function."



IR is "a key player in minimizing the cost of capital to sustain continued high growth," stated Lonnie Fogel, director of public relations, The Home Depot, Atlanta, GA. IR activities are "key to keeping stock at an acceptable value during a period of weak markets," another source concurred.

IR is not a "formalized part of corporate strategy but important to the CFO and COO," stated James M. Simon, VP, corporate communications, Medco Containment Services, Montvale, NJ. He was part of a vocal minority of corporate and firm practitioners who thought IR got short shrift from top management in strategic planning.

Question strategic impact

IR is "viewed as a necessary evil to reduce the cost of capital, yet (it is given) little strategic planning (support)," one corporate executive complained. This view was shared by about half of the handful of IR counselors who commented on IR as part of their clients' strategic plans.

"Unfortunately, most clients still see IR as a staff function divorced from the true corporate strategy," explained Helio Fred Garcia, APR, managing director, Clark & Weinstock Inc., a New York City counseling firm. "This will change."

"IR is of critical importance (to clients)," disagreed other counselors. IR firms handle "major c[illegible] with the financial community to d[illegible] the corporation's views and plans. We serv[illegible] as a conduit to receive comments from analysts and shareholders and pass them on to upper management," summarized another counselor.

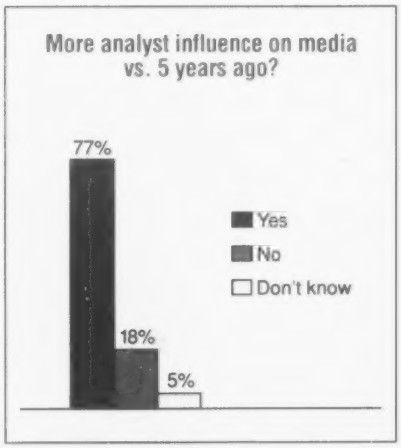
Institutional activism growing

In the past two or three years, institutional activism has become more of a factor in investor relations, according to the survey. A strong 87% of respondents reported this to be true, and 38% said activism actually affected their company or clients greatly or moderately. Conversely, 62% of respondents felt little or no impact from activism at the moment.

But when asked if they thought activism would continue to be a key element in the future, 60% of corporate respondents and almost 88% of counselors replied, "Yes."

"Institutional participation is expected to be more assertive in the future," stated Anthony Florence, APR, VP, communications and marketing support, Ansaldo Trasporti North America, Pittsburgh, PA. He seemed to imply that pension fund managers and other large shareholders, such as mutual funds, might put increasing pressure on corporate managements and boards.

Florence's concern about the future influence of institutional investors was echoed by several of his counterparts. "Although institutional holders are not a majority, they certainly have not hesitated to let their opinions be heard, especially on



issues such as executive compensation and adoption of an ESOP," one corporate practitioner explained.

"Anti-takeover issues, legislation and issues such as confidential voting, disclosure equality and expanded disclosure, and foreign investment will be growing concerns," another corporate executive forecast.

Preparing for the future

While companies with larger market capitalization responding to the survey clearly see or are exposed to increased activism, counselors and those with smaller

cap companies perceive that activism is a threat which will grow. While they may not be directly affected, they do need to be sensitive to the trend.

"Activism unfortunately will be a growing part of our work (that) we must address," advised counselor Sherwood Lee Wallace, president and CEO, The Investor Relations Co., Northbrook, IL. While some is good, much is drowning in overkill and trivia."

IR practitioners seem to be accepting the idea that institutional activism may be a good thing. After all, institutional activism is aimed at assuring that the institution gets maximum return on its investment. An institution with large holdings in a company often seeks to effect a corporate restructuring or recapitalization that adds value to their investment. It's up to IR practitioners to seek a dialogue with institutional representatives to address these concerns, even if the institution's goals are not always consistent with a company's strategy.

"Corporate activism tends to be considered by my clients as a public relations problem, not so much an IR problem," said Fred Fajardo, senior vice president, Gavin Anderson Doremus & Co., New York City. "The corporate public relations department is usually assigned to deal with it."

Activism is "still more of an annoyance or 'image' problem than something that severely affects the operations of a corporation," concluded counselor Garcia of Clark & Weinstock. As one corporate practitioner put it, "We have not been concerned with activism. However, I'm encouraging the CFO and CEO to give it more attention."

"More groups see the possibility of achieving political goals under the guise of investor activism," another counselor stated. "More and more communities have vocal citizen activist groups," a firm practitioner pointed out. "In the past three years, we've had to address issues brought by these groups."

"While institutional investors have remained passive up to now, at least with my clients, I believe this will change," said Gabriel Werba, APR, president, Gabriel Werba & Associates, Inc., Detroit, MI. "I find large individual investors, however, becoming more vocal."

Media influences investors

Media has had an increasing influence on investors, at least in terms of piquing their interest in certain companies. In the United States, this has resulted from a precipitous drop in the influence of sell-side (brokerage community) research among institutional investors. In addition, there are fewer intermediaries selling ideas to institutions today. At the same time, there are more investable institutional dollars – pension funds alone amount to $278 billion! The

IR Methodology

Survey Respondents Represent Cross-Section of Corporate Experience

PRSA Investor Relations Section members responding to *PRJ's* survey represent a broad cross-section of corporate titles, experience, responsibilities and reporting patterns. Of 66 responses tabulated, 25 (38%) came from members of counseling firms and 41 (62%) were from corporations. Of the counselors, virtually all (91%) were in the top management ranks at their firms. Of the corporate respondents, 39% were at the director level, 33% had "manager" titles and 15% were vice presidents.

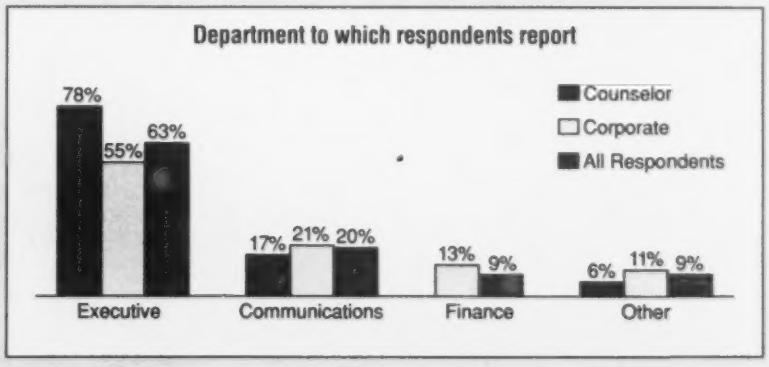
Titles among corporate respondents varied widely, with all of the following, and, of course, "investor relations," listed as areas of specialty: communications, corporate affairs, corporate relations, external relations/strategic services, marketing, public relations, media relations, financial communications, financial relations, press relations, and sales and financial reporting.

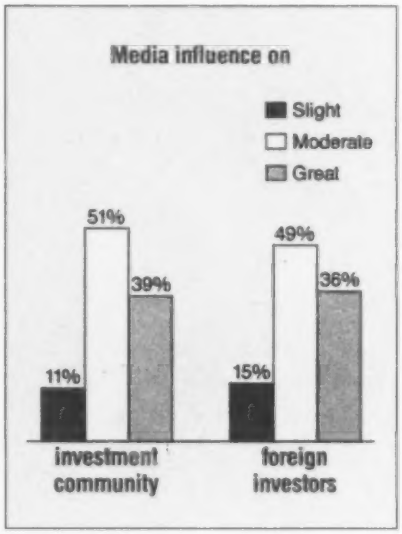
Counselors in the sample tended to have more experience, with 80% saying they had worked in an IR-related position for nine or more years. In contrast, just 34% of the corporate practitioners had held IR-related jobs for nine years or more and 46% had four or less years of experience in IR.

Many of the corporate respondents apparently work in big business, the survey showed. More than 42% worked at companies with more than $1 billion in market capitalization (number of outstanding shares x stock price). Another 17.5% worked at corporations with $500.1 million to $1 billion in stockholder equity. Five respondents (12.5%) reported corporate "market cap" of $100 –$500 million. Ten percent worked at companies with $50.1–$100 million in stock value. And 17.5% reported market caps of $1–$50 million.

Asked to what department they report, survey respondents presented a varied picture. (*See chart below.*) Of the total sample, 63% reported to the "executive" office (CEO, COO, board chairman), about 20% to a boss in "communications," 9% to "finance" and 9% to "other." However, nearly 78% of counselors in the sample reported to the executive office and about 17% to the corporate communications department. Not one counselor reported to the finance department and only 6% listed "other" choices.

In contrast, 55% of corporate practitioners in the sample reported to the executive office, 21% to the communications department, 13% to finance and 11% to other departments.–*S.L.F.*





media, including general and trade press as well as financial, has therefore become more of a means to introduce investors to companies.

Both IR and corporate public relations practitioners encounter media in many forms today. According to the survey, corporate IR specialists tend to have more to do with media relations than counselors with an IR focus. Two-thirds of the counselors in the sample reported their firms had "a separate media relations function," while only 38% of corporate IR practitioners said that this was true at their companies.

On a related question, a vast majority of all respondents said they "speak directly to the press on behalf of their corporation or clients." This tended to be true regardless of the nature of the media: financial, trade or general. In a related question, 75% of counselors and almost 90% of corporate IR practitioners stated they were "named as a contact for media inquiry on certain matters." Only a handful said their role as a point of contact for media had changed in the past few years.

As for media influence, a majority of those surveyed felt the investment community today is "moderately" (51%) or "greatly" (39%) influenced by the media.

As for financial analysts, more than three-quarters of those surveyed said this group had more influence on the media than five years ago. "They're called for comments by reporters much more often than in the past," observed counselor Gabriel Werba of Detroit.

However, many survey respondents questioned whether analyst comments actually influenced investors. As the population of employed analysts has shrunk, the number of analysts marketing their services via the media has increased. The theory, on the IR experts side, is that most important opinions, other than those of economists, are for paying clients' ears only, *not* for the media.

Talking to foreign investors

As for the media's impact on foreign investors, a majority of those surveyed again found the influence moderate (49%) or great (36%). However, it was unclear from the survey results what the influence of foreign investors was on the companies represented.

As for foreign IR activities, survey respondents felt they differed little from standard U.S. practice. To communicate with foreign markets, one corporate practitioner distributes international news releases in consultation with the IR director and management. Another produces "supplements to the annual report for

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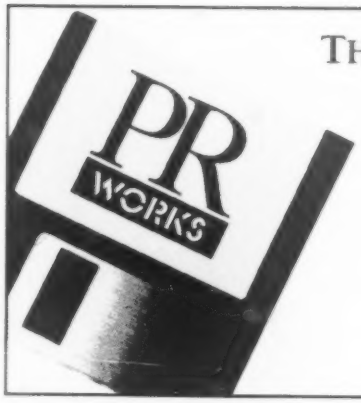

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W92PRJ

Foreign investors affect IR

Continued from page 21

Asia/Pacific and Europe detailing corporate activity in those regions." Still another arranges "direct visits to foreign investor groups and individual meetings." Still another "works through the company's international department to develop stories for foreign trade publications and produces appropriate financial communications."

Counselors involved in international IR tend to take a similar tack – business as usual with a foreign accent. Activities involve "mailings, meetings and materials – the same as in the domestic market," executives at four different firms agreed.

Call for more cooperation

Foreign investors will have an increasing influence on IR practice in the future, and media will play a role in how they receive their information, the survey found. "The farther away investors are located from an event, and the less direct news they receive from companies, the greater the impact of the news media on their decisions," one respondent summarized.

Financial communications can make or break a company's image

On the domestic front, institutional and individual investor activism is perceived as a growing concern for IR professionals and their fellow communicators. These trends combined with the larger role of media in influencing shareholder publics will challenge the IR practitioner of the future. Clearly, financial communicators are being called upon to address an increasingly complex mix of internal and external publics, sometimes through unfamiliar intermediaries. The situation calls for more cooperation than ever among IR specialists and other communicators in the corporate structure to present consistent messages to investors and those who influence them.

Robert D. Ferris is executive vice president and practice leader, investor relations, at Gavin Anderson Doremus & Co., a counseling firm in New York City. He is treasurer of PRSA's Investor Relations Section and a frequent contributor to books on financial marketing, investor relations and takeover crisis communications strategies. Richard M. Newman, APR, is managing partner, The Newman Group, New York City, and chairman of PRSA's Investor Relations Section. An expert in investor relations, Newman has developed training programs for New York University and The Professional Development Institute.

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